

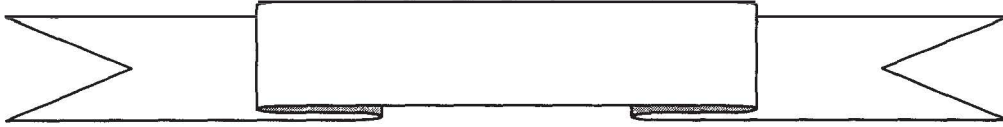


UNIVERSITI PUTRA MALAYSIA

**A CASE STUDY ON
PETRONAS GLOBALIZATION
A STRATEGIC MANAGEMENT DECISION**

AHMAD HUSSAIN

GSM 1999 6



AL – FATHIAH

**IN THE NAME OF ALLAH,
THE COMPASSIONATE, THE MERCIFUL.
PRAISE IS ONLY FOR ALLAH, THE LORD OF THE UNIVERSE.
THE ALL-COMPASSIONATE, THE ALL-MERCIFUL.
THE MASTER OF THE DAY OF JUDGEMENT.
THEE ALONE WE WORSHIP
AND
TO THEE ALONE WE PRAY FOR HELP.
SHOW US THE STRAIGHT WAY,
THE WAY OF THOSE WHOM THOU HAST BLESSED;
WHO HAVE NOT INCURRED THY WRATH,
NOR GONE ASTRAY.**





**A CASE STUDY ON
PETRONAS GLOBALIZATION
A STRATEGIC MANAGEMENT DECISION**

BY

**AHMAD HUSSAIN
MATRIC NO : GSO1390**

**THIS CASE
DISSERTATION
IS PRESENTED TO THE
FACULTY OF ECONOMICS AND MANAGEMENT
UNIVERSITY PUTRA MALAYSIA
AS PARTIAL FULFILLMENT
OF THE REQUIREMENT
FOR THE DEGREE OF**

**MASTER OF BUSINESS ADMINISTRATION
(MBA)**

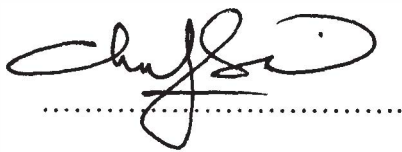
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PENGESAHAN KEASLIAN LAPORAN

Dengan ini, saya **AHMAD HUSSAIN** (No Matrik GSO1390), pelajar Master of Business Administration (MBA) mengaku bahawa kajian kes untuk kursus ini adalah hasil asal saya sendiri.

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AHMAD HUSSAIN

No Matrik : GSO1390

16 September, 1999

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DEDICATED TO

My Wife

Norfishah bt Ab Wahab

My Children

Mohammad Fakhri

Mohammad Fakhrullah

Mohammad Fakhrusysyakin

Fathin

My Parent

Tuan Hj. Hussain Tamysa

Hajjah Rokiah Bt Harun

Abstract

PETRONAS vision was “To be A Leading Oil and Gas Multinational Company of Choice” and it stated the globalization effort in 1994. PETRONAS global operation had extended to Africa countries, Confederate Independence of Soviet Union (CIS), Middle East and Asia Pacific countries. Some of the Africa countries included Sudan, South Africa (downstream Engen), Libya and Algeria. The investments in CIS were Turkmenistan and Kazarkstan. The investment in Middle East countries included Iran, Syria and Iraq. In the Asia Pacific, the oversea portfolios extended to Vietnam, Mynmar, China and Australia (both Upstream and downstream).

The oversea upstream activities were undertaken by its subsidiary PETRONAS Carigali Sdn Bhd (PCSB) through its oversea subsidiary companies. When PETRONAS started its globalization efforts, the environmental factors were very much favorable. However, in 1997 and 1998 there were adverse changed in these environmental factors and had affected PETRONAS globalization efforts. Some of these factors were the regional and world economic turmoil, regional financial and currency devaluation, slower economic growth, low demand of oil and gas, lower oil and gas price and lower prospectivity and commerciality of the oil and gas projects.

This case study evaluated PETRONAS strategic position and the impact on the international portfolios and made recommendation relating to these strategic issues. This case study analyzed the environmental factors influencing the company future direction through the used of the SWOT analysis and determined the strategic thrust to comprehend the SWOT analysis. This study assessed analytically, through the used of SPACE, the future company direction and evaluated the oversea portfolios to determine the portfolios growth opportunities and provide the decision as to whether these portfolios should be retained, partnered or divested.

Abstrak

Visi PETRONAS adalah “Menjadi Syarikat Minyak dan Gas Antarabangsa Yang Terulung dan Terpilih” dan ia telah memulakan usaha globalisasi pada tahun 1994. Usahanya ke arah globalisasi telah menjangkau ke negara-negara di Afrika, Confederate Independence of Soviet Union (CIS), Asia Tengah dan Asia Pasifik. Negara-negara di Afrika adalah termasuk Sudan, Afrika Selatan (operasi hiliran Engen), Libya and Algeria. Pelaburan di CIS merangkumi negara-negara seperti Turkmenistan and Kazarkstan. Manakala pelaburan di Asia Tengah menjangkau ke negara-negara Iran, Syria and Irak. Di Asia Pasifik, pelaburan antarabangsanya termasuk Vietnam, Mynmar, China dan Australia (huluan dan hiliran)

Operasi huluan dikendalikan oleh anak syarikatnya iaitu PETRONAS Carigali Sdn Bhd (PCSB) melalui anak-anak syarikatnya yang lain. Pada ketika PETRONAS memulakan usaha globalisasi, faktor-faktor sekeliling adalah begitu mengalakan. Walau bagaimanapun, dalam tahun 1997 dan 1998, terdapat perubahan ketara pada faktor-faktor sekeliling ini sehingga mencengkam usaha globalisasi PETRONAS. Antara faktor-faktor yang mengalami perubahan ketara adalah kejatuhan ecomomi serantau dan dunia, sistem kewangan yang lemah, susut nilai matawang serantau, pertumbuhan ekonomi yang lembab, penurunan kadar permintaan minyak dan gas, kejatuhan harga minyak dan gas dan tahap prospek dan keupayaan niaga projek yang rendah.

Kes ini menganalisa strategi PETRONAS dan implikasi keatas potfolio antarabangsanya dan seterusnya memberi cadangan untuk menyelesaikan isu-isu tersebut. Kes ini menganalisa faktor-faktor sekeliling yang mempengaruhi arah tuju masa depan syarikat dengan menggunakan analisa SWOT dan SPACE bagi menetapkan tunjak strategik dan membuat analisa potfolio antarabangsanya semada untuk terus memegangnya, berkongsi atau menjualnya.

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1.0 PETRONAS GLOBALISATION AND THE DILEMMA

Tan Sri Hassan Marican, president of PETRONAS, the national oil company of Malaysia, was on his way back after a week long business meeting with his new partners in Sudan, China National Petroleum Corporation (CNPC), State Petroleum and Sudapet, the Sudan National oil company. Accompanying him on his privately hired jet plane, were other vice presidents, they were Dato' Mohamad Idris Mansor, senior vice president of Exploration and Production Business Unit and Mr. Muri Mohammad, the vice president of Gas Business Unit. They were having serious discussions on the prospectivity of the new joint venture and the resources invested in Sudan. There were about 238 PETRONAS employees working in Sudan, and PETRONAS has invested US\$130 million to date.

At one juncture, Tan Sri Hassan posed a question to Dato' Idris, "Dato' Idris, PETRONAS has interest in many different countries around the world, with a total investment of US\$6 billion. So far, we have been receiving revenues from Sirri projects in Iran, Dai Hung and Ruby projects in Vietnam. Dai Hung has been a disastrous venture to us, millions of dollars were lost due to lower oil reserves than expected. We may have to relinquish the field and return back to the Vietnamese Government. I wonder how are our other project stands? With the adverse changed in the environmental factors and current uncertainties in the global economy, how are our oversea portfolios doing and do we need to strategies our future direction?".

There was a long sighed and Dato Idris later replied with cautious, "We have been able to grab the oversea projects because we made a thorough analysis and feasibility study. However, in the exploration and production business, the risk is very high. Base on our limited data and information then, it was the best decision. However, I agreed that there is a need to reassess our projects and to decide whether to retain the projects or divest in some. We will reevaluate the

project feasibility and carry out the portfolio analyses to determine which are the portfolios that can be retained and those that need to be divested. We will advise the board for the next course of action.”

The tense and dilemma were immensed on Dato Mohd Idris Mansor. He needed to know what were the situations, what adverse environmental changed occurred and the surrounding forces governing these assets. Was the political in the country, in which PETRONAS had invested, permitted a good investment climate? What impact did the global economy have on the projects’ prospectivity. What would the future scenarios be? Could the vision, mission and objective of the company be met? Should PETRONAS continue to aggressively expand the international operations, what should be done to the existing international portfolios and what should PETRONAS future direction be? His contract with PETRONAS valid for another three months. He knew that he needed to impress and make the Management Committee convince based on solid factual data and analyses, what are best for these international portfolios. He needed to provide with proper recommendations and direction for PETRONAS to adopt. His contract extension could be in jeopardy if he failed to provide the right decision and direction.

2.0 COMPANY BACKGROUND

PETRONAS was a Malaysian national oil and gas company, which was incorporated on August 17, 1974 under the Malaysian Company Act 1965. The Malaysian Petroleum Development Act (PDA), 1974 was passed by the Parliament on October 1, 1974. It placed petroleum development under the portfolio of the Prime Minister. Under the PDA, PETRONAS was vested with the ownership of petroleum resources, and had exclusive rights, power, liberties and privileges of exploring and developing petroleum resources. In return for the ownership and

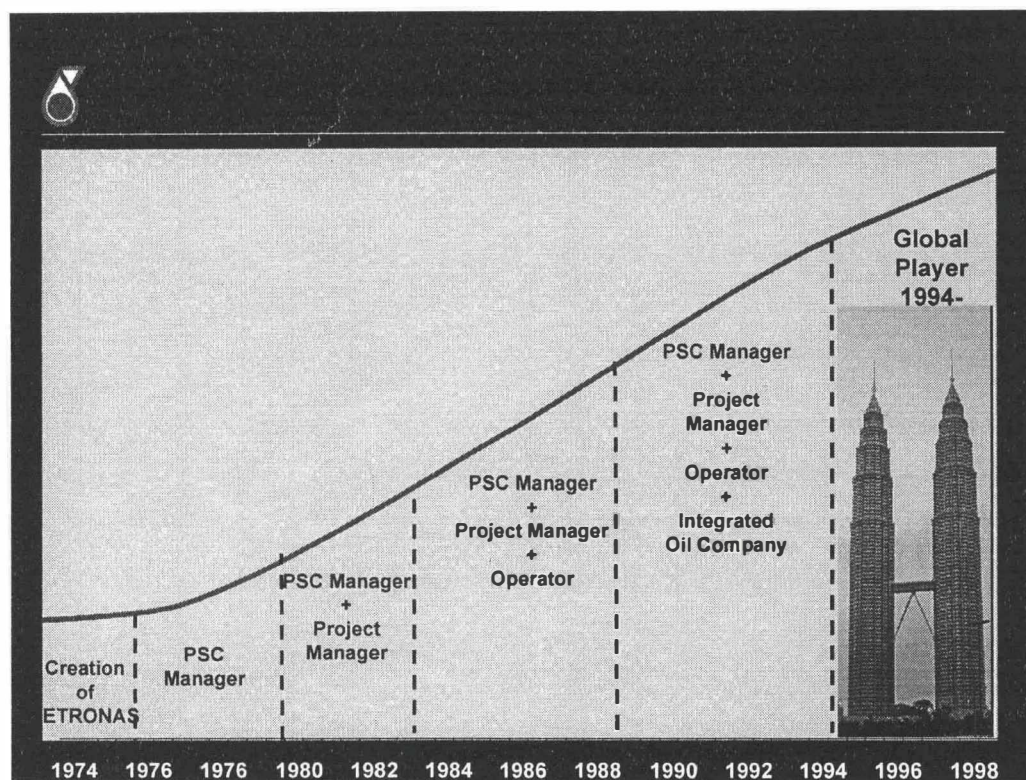
rights, PETRONAS paid royalties to the Federal and State Governments. PETRONAS was given the right to carry out processing, refining of petroleum and manufacturing of petrochemicals. This act had given PETRONAS the sole right to regulate the petroleum resources in Malaysia and was entrusted to manage the resources for the benefit of the nation. Towards the end of 1976, the first production sharing contracts were signed with three different major oil companies i.e. Sabah Shell, Sarawak Shell and Esso. During the initial years, PETRONAS roles mainly focus on managing and regulating the exploration activities of their contractors to ensure the upstream activities were being well administered and properly managed.

Since PETRONAS emergent in 1974, it had developed itself from merely management of petroleum resources to project management and later established itself as the operator in the upstream activities before diversifying its activities and went international. PETRONAS evolution is shown in Figure 1. In 1984, with the establishment of PETRONAS CARIGALI Sdn Bhd, it became the operating arm in the upstream activities. Later, several strategic studies were carried out by PETRONAS that led to diversification of its activities into oil refining, gas processing and utilization and petrochemical manufacturing and international marketing. To optimize the value and maximize synergy of the natural resources, it had integrated the upstream and downstream activities and transformed PETRONAS into an integrated oil and gas company.

In 1994, PETRONAS started to diversify its activities oversea through its operating arm PETRONAS Carigali Sdn Bhd. In 1998, it had expanded the global activities into 15 different countries in the upstream and downstream. PETRONAS global operation had extended to Africa countries, Confederate Independence of Soviet Union (CIS), Middle East and Asia Pacific countries. Some of the Africa countries included Sudan, South Africa (downstream Engen), Libya and Algeria. The investments in CIS were Turkmenistan and Kazakhstan. The investment in Middle East countries included Iran, Syria and Iraq (still in negotiation). In the Asia Pacific,

the overseas portfolios included Vietnam, Myanmar, China and Australia (both Upstream and downstream). In line with the globalization, PETRONAS had developed a new vision and mission in accordance to its core activities and the company aspiration of becoming a global company of choice.

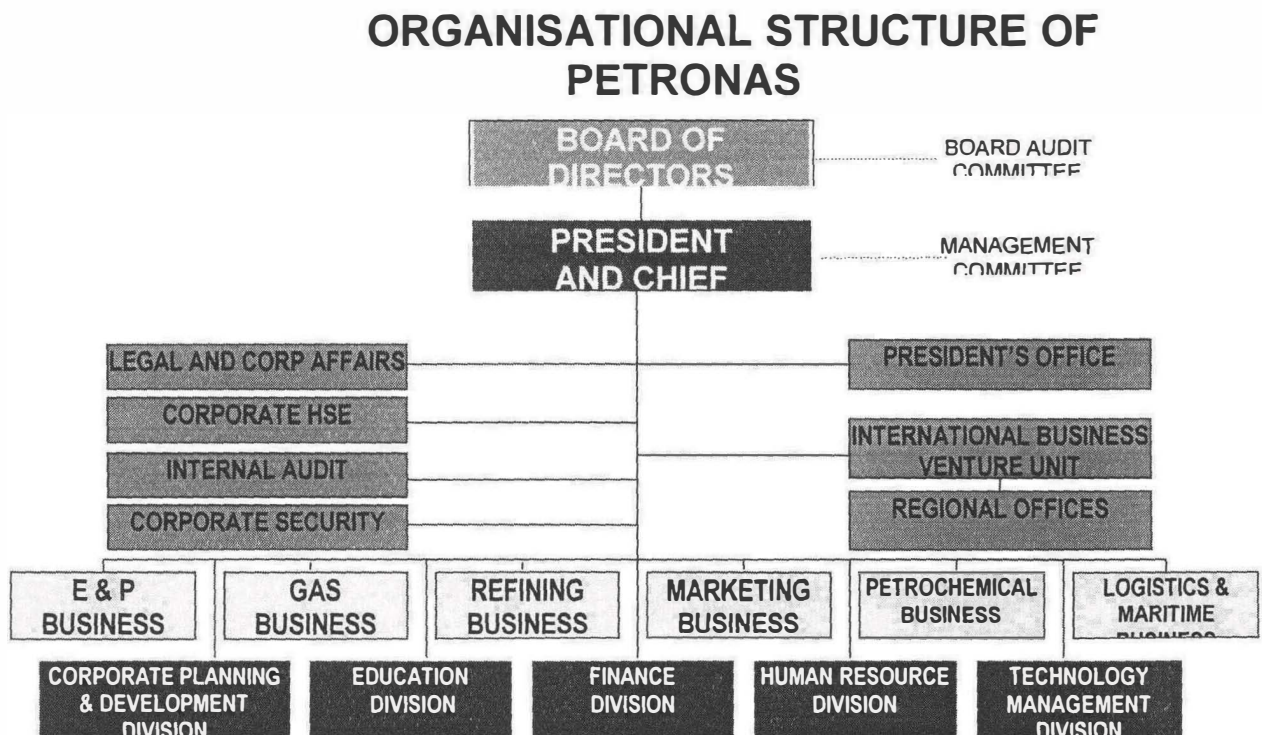
FIGURE 1: PETRONAS EVOLUTION



Petroleum was PETRONAS core business right from finding hydrocarbon up to processing and refining, petrochemical industries, manufacturing and transportation. The organization structure of PETRONAS is shown in Figure 2. Exploration and Production activities encompassed

exploration, development and production of petroleum resources. Refining activity focussed on refining the crude oil. Marketing was responsible in marketing, trading and retailing of petroleum products. Gas business was responsible in gas processing and transmission, gas liquefaction and gas utilization such as gas district cooling. The Petrochemical business was responsible for the petrochemical manufacturing and marketing the product. Maritime and logistic business included marine transportation, port management and terminaling and finally the logistic activities.

FIGURE 2



3.0 PETRONAS's VISION, MISSION AND OBJECTIVES

Mission and vision statement is very important to illustrate the organization reason for existence and the direction towards achieving the objectives and goals in the short and long term. PETRONAS had long developed the mission and vision statement. However, in 1995, after its globalization effort, PETRONAS changed its vision statement to incorporate the vision of being a multinational company of choice. Below are discussion on the three elements of PETRONAS fundamental principle of its existence and the values system that it adored.

3.1 VISION

PETRONAS vision was “To be A Leading Oil and Gas Multinational Company of Choice”. This defined that oil and gas as the core business and emphasized on significance of integrated upstream and downstream activities in adding values to the primary resource. In line with the industry trend in the downstream and the relevancy in the value chain, PETRONAS wanted to increase weighting towards gas and petrochemical. It expressed desired to leverage on the core businesses and out-sourced the non-strategic activities and units. PETRONAS has developed strategies where it emphasized on certain business segments, focused on certain geographical locations and leveraged its competitiveness in a certain market segment.

In 1994, PETRONAS started its globalization effort to become a global multinational company. Thus a significant proportion of its operations were outside Malaysia and across several countries. Like other multinational company, PETRONAS had to deal and manage with multinationals and multicultural not only in Malaysia but other countries that it was operating. The vision stated that it wanted to be a world class organization, as

such in 1996, the management has undertook business process reengineering to make PETRONAS more competitive internationally. The vision also stressed on being a company of choice and keenly preferred by all stakeholders, consumers and partners.

3.2 MISSION

The PETRONAS mission statement was developed to explain the reasons for its existence, strengthen the vision and articulate the corporate direction in achieving the vision. PETRONAS described its mission statements as follows;

“WE ARE A BUSINESS ENTITY”

“PETROLEUM IS OUR CORE BUSINESS”

“OUR PRIMARY RESPONSIBILITY IS TO DEVELOP AND ADD VALUE TO THIS NATIONAL RESOURCE”

“OUR OBJECTIVE IS TO CONTRIBUTE TO THE WELL-BEING OF THE PEOPLE AND THE NATION”

The mission statement stated that petroleum, which constitute of oil and gas, as being the core business. Petroleum as a natural resource, had to be explored, developed, produced, processed and transformed to consumer products, e.g. gasoline, ethane as feedstock to petrochemical plant and gas for power plant. In this way, PETRONAS could maximized the value chain of this natural resource through synchronizing the upstream activities with the downstream activities. The upstream activities involved exploring and producing the petroleum whereas the downstream activities involved processing and transformation of the natural resource into other utilities and feedstock to the petrochemical plants. The mission also mentioned that the objective was to contribute

toward the well being of the people and the nation. PETRONAS believed that since it was entrusted with the responsibility to develop the natural resources and given the exclusive rights under the PDA, it has the responsibility to protect the well being of the people and the nation whom, it believed, owned the wealth of the natural resources of the country.

3.3 OBJECTIVES

Taking the vision and mission as the foundation of the company direction, PETRONAS Exploration and Production (E&P) business unit has developed their specific objectives in order to achieve the Corporate's vision and mission. The specific objectives are discussed below.

1. Increase the share or revenues from international operation by 30% in year 2005.
2. Creating value to the company at RM 58 billion by year 2005.
3. To acquire 1billion of oil equivalent by year 2000.
4. Be a leading upstream gas company in South Asia.
5. Overall Total Corporate Return (TCR) of top quartile in International E&P industry.

In achieving the PETRONAS E&P objectives some of these strategies were integrated across businesses to synergies and create value chain to the company. In its effort to maximize value creation to the company, PETRONAS had acquired service company alliance to minimize cost of development and strategic partnerships with other companies in its oversea ventures to share the risk.

3.4 PETRONAS's VALUES SYSTEM

PETRONAS value system was developed to explain the values that the organization advocated and the expectation that the organization has on its employee. There were four values system adopted by PETRONAS.

“LOYALTY”

“PROFESSIONALISM”

“INTEGRITY”

“COHESIVENESS”

The word loyalty referred to the staff loyalty to the nation and corporation. A loyal staff maintained high corporate image and would not make derogatory comments about the company and country. The staff would at all time provide constructive criticism within in-house forum, support and participate in ensuring the company's mission, roles, objectives in his or her activities either in-house, outside seminar, talks and social activities.

Professionalism in PETRONAS terminology means committed, innovative and proactive and always striving for excellence. The staff would maintain correctness and high dignity of behavior in delivering his duty and firm in decision making based on objective assessment of situations in conducting affairs of the company.

Integrity means honest and upright. It referred to staff trustworthiness in maintaining all confidentiality of company's affairs and business and put company's interest above personal interest and gains.

Cohesiveness means united in purpose and fellowship. Able to work in a team and contribute positively towards a common goal in conducting company's affairs and business with genuine concerns and respect to the people.

4.0 PETRONAS ORGANIZATIONAL ENVIRONMENT

Some of the factors that impact the development of an organization include the financial, marketing, operation and management factors. Based on Fortune 500, August 98, in the Petroleum Industry category, PETRONAS has been listed has number 1 in term of return on revenues and return on assets with 28.4 % and 13.9% respectively. Its had investment in 53 wholly owned companies with 21 located overseas and 32 locally, 27 partly owned with one in oversea and 30 associated companies with 11 located oversea.

The mode of decision making was made centralized with specific business units had their own business committee chaired by the respective vise president. The organization decision-makings and guiding policies were made through Management Committee meeting and Board meeting. Members represented the Management Committee were mainly from the various heads of business units. The Board Members comprised of member from the senior management and Government representatives.

The Exploration and Production (E & P) business unit was responsible of the upstream activities. Petroleum Management Unit, which was part of the holding company, was responsible of managing the domestic petroleum operation and supervising the implementation of Production Sharing Contracts signed between PETRONAS and the contractors.

PETRONAS Carigali Sdn. Bhd. (PCSB) under the E&P business units was the subsidiary of PETRONAS and was the operating arm of PETRONAS in the upstream sector. It has domestic assets as well as international assets. The international assets were being managed by wholly owned international subsidiaries headed by the country managers. The case discussed the globalization challenges in PCSB.

4.1 PCSB ORGANIZATION STRUCTURE

The operating arm of PETRONAS in the upstream was PETRONAS Carigali Sdn Bhd. (PCSB) which has businesses locally and internationally. Figure 3 shows the organization of PCSB. The domestic operations were run by the regional offices located in Kertih for the Peninsular Malaysia, Miri for the Sarawak operation and Kota Kinabalu for the Sabah operation. The main corporate office was located in PETRONAS Twin Tower, KLCC and it managed and controlled the overall operation of the organization.

The Chief operating officer (COO) was responsible for the three regional operations and he made regular reports to the CEO. Three regional General Managers who managed and controlled the daily operation gave regular reports to COO. Most of their operations were offshore and they ensure the safety and objectives of the regional office were met. The main, objective of these regional offices was to deliver oil and gas production at a certain rate to meet the national target set by PETRONAS. In doing so the daily running of the machinery, production platforms, maintenance and safety of the operation were uphold.